

**Internal Revenue Service**

**Department of the Treasury**

District  
Director

Date: JUL 01 1994

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have completed our consideration of your application for exemption under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(7).

You were incorporated [REDACTED] under the nonprofit statutes of the State of [REDACTED]. According to a mission statement dated [REDACTED], you were formed to disseminate specific information to those persons or organizations interested in the [REDACTED] airplane, specifically, annual maintenance seminars and publications which set out the most recent government directives for the operation and maintenance of this specific airplane. The statement goes on to say that you were formed because this information is not available from any other source. It further states that you hold annual conventions for members. The conventions are designed for members to discuss their common interests of [REDACTED] ownership and/or operation. The agenda is geared to provide information regarding the [REDACTED] airplane to members and to keep them current on all matters pertaining to the [REDACTED] airplane. Your application, in describing your activities, restates the above.

Membership is open to any individual or firm who owns or operates [REDACTED] aircraft or has an interest in ownership or operation of the [REDACTED] Aircraft. You have approximately [REDACTED] members. Membership dues, according to a membership application, are \$[REDACTED] for a general individual membership. Nonvoting commercial or corporate memberships are also available. Within the organization you have the following committees: Newsletter and Newsletter Advertising Committee, Maintenance Committee, Safety and Training Committee, Insurance Committee, Membership Committee, and Annual Meeting Committee.

You publish quarterly and distribute to members a magazine which contains features and technical articles about aviation and [REDACTED] aircraft. The magazine also contains a substantial amount of advertising. You also distribute a membership directory. Your annual convention is a [REDACTED] day affair. About [REDACTED] members attended the last one. The convention consists primarily of technical seminars presented by experts in various fields. There are some planned social activities held during the evenings such as cocktail hours and dinners. Vendors also attend the convention and members have the opportunity to meet with them. The day after the convention members had the option to participate in a flyout to another city as an overnight social function. The annual convention is the only planned activity where members meet and commingle.

Gross receipts for [REDACTED], your first full year of operation, included \$[REDACTED] in dues, \$[REDACTED] in contributions, \$[REDACTED] in advertising income, \$[REDACTED] in convention receipts, and \$[REDACTED] interest income. Expenses included \$[REDACTED] for magazine costs, \$[REDACTED] in convention expenses, and \$[REDACTED] in administrative and other expenses.

Section 501(c)(7) of the Code provides for the exemption from federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the regulations provides that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

The Service has long held that the term "other nonprofitable purposes" means other purposes similar to pleasure and recreation. For example, Revenue Ruling 63-190, 1963-2 C.B. 212 held that an organization which operated as a social club, and in addition provided for sickness and death benefits for its members, was not operated exclusively for the purposes stated in section 501(c)(7). Providing sickness and death benefits was not a purpose similar to pleasure and recreation. Also see Revenue Ruling 69-527, 1969-2 C.B. 125, which held that a social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings did not qualify for exemption. The organization was held not to be operated exclusively for pleasure, recreation, or other similar social purposes because its social activities were incidental to its other activities designed to aid its members in their individual businesses. It was not operated exclusively for 501(c)(7) purposes.

The term "club" as used in section 501(c)(7) implies the existence of personal contact, commingling, and fellowship among members. Generally, the lack of commingling of members is an indication that the basic purpose of the organization is only to provide personal services, goods or benefits to members in a manner which may be similar to commercial counterparts. See Revenue Ruling 69-635, 1969-2 C.B. 126, which held that an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities does not qualify for exemption under section 501(c)(7). Furthermore, in order to qualify for exemption under section 501(c)(7) of the Code, a commingling of members must play a material part in the activities of the organization. See Revenue Ruling 58-589, C.B. 1958-2, 288. Thus, a flying club providing economical flying facilities for its members, but having no organized social and recreational program, did not qualify for exemption because the sole activity of the club was rendering services to its individual members and there was no significant commingling of its members. See Revenue Ruling 70-32, 1970-1 C.B. 132. However, a flying club did qualify for exemption where the members jointly participated in the hobby of flying for pleasure and recreation, and there was constant person-to-person association among the members. See Revenue Ruling 74-30, 1974-1 C.B. 137.

In your case, we have determined that you are not operated exclusively for social or recreational purposes. Based on our review of your application, you are operated for the purpose of improving members' efficiency in the maintenance and operation of a particular brand of aircraft. Members meet only once a year for a convention and less than [REDACTED] of the membership actually attended the last one. While the annual convention includes some social activity, the activities conducted there primarily involve the presentation of technical material through seminars and like activities.

As indicated in the rulings above, the commingling of members on a regular basis for the purpose of engaging in social activities must be a material part of operations to qualify under section 501(c)(7). Also, social activities must be more than only incidental. Your social activities are incidental to your other programs and your members do not commingle for social purposes significantly. Accordingly, we have determined that you are not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes within the meaning of section 501(c)(7) of the Code. Accordingly, recognition of tax-exempt status is denied. You should file federal income tax returns.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

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If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you have any questions, you may contact the person whose name, address and phone number appear at the top of this letter.

Sincerely,

A black rectangular redaction box covering the signature of the District Director.

District Director

Enclosures:  
Publication 892  
Form 6018